

## *CCSB Bail-Out Bulletin No. 3*

Seesaws and roller coasters, they populated the playgrounds and amusement parks of your childhood. But their metaphoric reappearance in the major financial markets these past few weeks likely has brought considerably less pleasure to your grown-up world. As we all hang on, waiting for our heads (and portfolios) to stop spinning, set out below are summaries of significant developments of the past few days (with links, where available, to more detailed descriptions):

### *Bail-Out or Buy-In?*

**US Announces \$250 Billion Banking Rescue.** The U.S. government unveiled a \$250 billion plan to purchase stakes in US banks in order to assure Americans that our banking system is safe and sound. The intent is to restore stability to the banking sector in hopes of ultimately preserving the free markets. President Bush stated that “[t]his is an essential short-term measure to ensure the viability of America’s banking system.”

- For full story see:  
<http://news.bbc.co.uk/2/hi/business/7668704.stm>

### *Combinations*

**Wells Fargo Wins Battle for Wachovia.** Wells Fargo finally won the fight over Wachovia, after the collapse of a deal between Wachovia and Citigroup. Wachovia announced that it would not hold a shareholder vote on the Wells Fargo acquisition due to concerns that a delay could further damage its viability. Wells Fargo will acquire Wachovia for \$15.1 billion, with no assistance from the federal government. The competing Citigroup deal for Wachovia’s banking business was worth \$2.1 billion and had government backing.

- More information is available at:  
[http://www.wachovia.com/inside/page/0,,134\\_307,00.html](http://www.wachovia.com/inside/page/0,,134_307,00.html)

### *Accounting Rules Maneuvers*

**Accounting Standards Board Revises Mark-To-Market Rules.** The Financial Accounting Standards Board adopted new guidance that, according to CNN, “provide[s] some flexibility in applying ‘fair value’ accounting where there is no market for a security,” but does not suspend the fair value rule. According to the new guidance, when there is no market for a security, companies will be able to adopt “managers’ estimates of value, taking into account expected future cash flows and risk discount rates.”

- More information is available at:  
[http://www.fasb.org/pdf/fsp\\_fas157-3.pdf](http://www.fasb.org/pdf/fsp_fas157-3.pdf)

**Accounting Rules Altered to Up Participation in Bail-out.** According to *The Wall Street Journal*, the Bush administration plans to permit banks participating in the \$250 billion capital infusion program to treat the government's warrants as "permanent equity" rather than as liabilities on their balance sheets. Treating the warrants as liabilities "could force the banks to record a loss and thus impair their capital levels – the very opposite of what the government is aiming to accomplish."

### *Global Action and Reaction*

**UK Nationalizes Three Large Banks.** The British government plans to inject £37 billion into Royal Bank of Scotland, Lloyds TSB, and HBOS, three of the country's largest banks. In exchange for the investments, the government will have control over the banks' management. The BBC's business editor has said the banks faced "absolute humiliation."

- More information is available at:  
<http://news.bbc.co.uk/2/hi/business/7666570.stm>

**Switzerland Pours Capital into UBS.** Switzerland plans to inject \$5.3 billion into UBS in exchange for a temporary 9% stake in the bank. In addition, the Swiss National Bank will remove up to \$60 billion of "toxic securities" from UBS's books. Although the same help was offered to another of Switzerland's largest banks, Credit Suisse Group, Credit Suisse declined government assistance after raising funds from global investors.

- More information is available at:  
<http://news.bbc.co.uk/2/hi/business/7673159.stm>

**Germany Stands Behind its Banks.** The German government assembled a rescue package worth €500 billion, or about \$671 billion, to bolster the country's financial system. The current plan is that €400 billion, or \$536.7 billion, will be designated as guarantees for banks; another €100 billion, or \$134.2 billion, will be earmarked to recapitalize banks and back up the guarantees. The money will go into a newly created "financial market stabilization fund" that the banks will be able to draw from until the end of 2009.

- For details see:  
[http://money.cnn.com/2008/10/13/news/international/Germany\\_rescue.ap/index.htm](http://money.cnn.com/2008/10/13/news/international/Germany_rescue.ap/index.htm)  
<http://news.bbc.co.uk/2/hi/business/default.stm>

**Japan Supplies More Cash.** Japan's central bank said it expanded the scope of its agreement with the U.S. Federal Reserve by allowing it to provide more cash to financial institutions in order to keep money markets operating smoothly. Under this development, the dollar-yen swap agreement with the Federal Reserve was revised and will now offer an unlimited amount of dollars (up from the previous limit of \$120 billion) to banks and other financial institutions operating in Japan.

- For full story see:  
[http://money.cnn.com/2008/10/14/news/international/Japan\\_dollars.ap/index.htm](http://money.cnn.com/2008/10/14/news/international/Japan_dollars.ap/index.htm)

**Russia to Provide \$86 Billion Bank Bail-Out.** Russia's lower house of parliament has approved a package worth \$86 billion to assist banks affected by the credit squeeze. Under the plan, the government will make \$50 billion available to banks and firms that need to refinance foreign debt, and the remainder will be used to supply loans to banks.

- For full story see:  
<http://news.bbc.co.uk/2/hi/business/7662839.stm>

**Worldwide Efforts to Address the Global Crisis.** Other international efforts to address the global financial crisis include:

- **The Netherlands** plans to infuse \$13.4 billion into banking and insurance company ING Groep NV. In exchange, the Netherlands will take nonvoting securities that could yield 8.5% annually and seats on ING's board.
- **Sweden** has proposed a financial stability program that includes a \$205 billion guarantee of bank liabilities. Sweden's central bank will also loan \$10 billion to assist credit markets.
- **South Korea** has injected \$30 billion into the country's banks and placed a \$100 billion guarantee on foreign-currency loans.
- **Hungary's** Prime Minister is taking steps to reassure investors that the country will not become another Iceland. He has announced that he will speak with banks about assisting borrowers and that the country will work to reduce its deficit more quickly than planned.
- According to *The Wall Street Journal*, **the European Union** may loosen mark-to-market accounting rules to allow banks to categorize additional assets as long-term investments in order to avoid write-downs.
- **The Reserve Bank of India** has cut its short-term lending rate for the first time in more than four years.

More information is available at:  
<http://news.bbc.co.uk/2/hi/business/7654647.stm>

**LIBOR Continues Downward Slide.** The three-month and one-month interbank borrowing rates continued to decline Friday, a sign that investors are regaining confidence in money market investments. The three-month LIBOR dropped from about 4.50% to 4.42%, and the one-month LIBOR dropped from about 4.28% to 4.18%. According to *The Wall Street Journal*, "[t]he three-month rate now stands at its lowest since October 8, when central banks orchestrated emergency coordinated interest rate cuts." The overnight lending rate fell Friday from 1.94% to 1.67%.

### *Government Investigations and Intervention*

**Auction-Rate Securities Settlements.** The SEC entered into preliminary settlements in principle with Bank of America and RBC Capital Markets regarding auction-rate securities. The settlements essentially require Bank of America and RBC to redeem auction-rate securities at par from small investors, small businesses, and charities (the RBC settlement also includes religious organizations and small non-profits).

- BOA Settlement  
<http://www.sec.gov/news/press/2008/2008-247.htm>
- RBC Settlement  
<http://www.sec.gov/news/press/2008/2008-246.htm>

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